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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC 3557
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 2098
RUEHAR/AMEMBASSY ACCRA 2349
RUEHDS/AMEMBASSY ADDIS ABABA 2467
RUEHRL/AMEMBASSY BERLIN 0977
RUEHBY/AMEMBASSY CANBERRA 1745
RUEHDK/AMEMBASSY DAKAR 2100
RUEHKM/AMEMBASSY KAMPALA 2521
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AF/S FOR B. WALCH
ADDIS ABABA FOR USAU
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NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
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SUBJECT: ZIM NOTES 10-10-2008

1. SUMMARY

Topics of the week:

- Tsvangirai Suspends Talks...
- Teachers Unions Call for Cancellation of Exams...
- Mock Hostage Situation on YouTube...
- Inflation Gallops--Even By Official Standards...
- Zimbabwe Dollar Depreciates Sharply Despite New Policies...
- Dire Payment Situation, a Further Blow to the Economy...
- Macroeconomic Instability Undermines Export Competitiveness...
- ZSE Scaling New Heights...

2. Price Movements-Exchange Rate
and Selected products

Parallel rate for cash nearly tripled to Z\$12,000:US\$1

Check rate (see note below) was Z\$3,500,000:US\$1 against inter-bank
average of Z\$185:US\$1

Bread on the parallel market more than doubled to Z\$10,000

Sugar shot up to \$15,000/2kg

Petrol and diesel climbed to Z\$10,000/liter

Note: Due to the suspension of the Real-Time Gross Settlement system
by the Reserve Bank of Zimbabwe on October 3, Post will now be
reporting on the unofficial check transfer rate that individuals and
entities are using to make non-cash payments.

On the Political/Social Front

13. Tsvangirai Suspends Talks... Prime minister designate and MDC-T president Morgan Tsvangirai suspended ministerial talks with ZANU-PF on October 9, citing the need for the reengagement of mediator and former South African president, Thabo Mbeki. Tsvangirai also called for the involvement of SADC and the AU to reaffirm their commitment as the deal's guarantors. Tsvangirai made clear that the MDC-T intends to negotiate the division of ministries collectively, as he disputed that only Finance and Home Affairs were still being contested. A statement released yesterday by Tsvangirai charges ZANU-PF with negotiating in bad faith and using hate speech, political discrimination, and trumped-up charges to divide the country. See Harare 915.

14. Teachers Unions Call for Cancellation of Exams... Both the Progressive Teachers Union of Zimbabwe (PTUZ) and the Zimbabwe Teachers' Association called for the cancellation of public examinations this year because students are unprepared following a two month teacher's strike, lack of materials, and disruptions caused by elections-related violence. Cancelling the exams would force several million children to repeat the school year. "For the record, there was no meaningful learning and teaching in 2008 and all examination classes are not prepared," Takavafira Zhou, leader of the PTUZ, told journalists.

15. Mock Hostage Situation on YouTube... A new five minute video simulating a hostage situation of prominent Zimbabwean officials was recently posted to YouTube. The morbidly humorous video ends with the beheading of a cardboard cut-out of Gideon Gono after a litany

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of charges against him are raised. The "Survivor-style" show will accept internet votes on who should be beheaded next from a cast including Mugabe, Mbeki, Mutambara, Chihuri, and Chiwenga. Go to http://www.youtube.com/watch?v=K_aJzqOhtWY to view the video.

On the Economic and Business Front

16. Inflation Gallops--Even By Official Standards... According to The Herald of October 9, Zimbabwe's year-on-year rate of inflation rose sharply from just over 11 million percent in June to 231 million percent in July 2008, with the month-on-month rate rising from 839.3 percent to a massive 2,600 percent over the same period. According to the Central Statistical Office, bread and cereals were the main drivers of inflation in July as producers had to rely on importing the ingredients.

17. Zimbabwe Dollar Depreciates Sharply Despite New Policies... The local currency continued to depreciate massively on the parallel market despite Gono's policies of suspending all bank transfers to curtail parallel market activities. People quickly replaced bank transfers with checks and, as of October 9, the unofficial Zimbabwe dollar check rate had depreciated by over 99.9 percent from Z\$70:US\$1 on August 1 to US\$3,500,000:US\$1 while the cash rate fell by 99.9 percent from Z\$15:1 to Z\$12,000 :US\$1 over the same period.

18. Dire Payment Situation, a Further Blow to the Economy... Hyperinflation is rapidly eroding the value of the new Z\$20,000 note introduced recently to quell unrest over cash availability. The suspension of inter-bank transfers on October 3, cash shortages, the low purchasing power of cash, plus empty shelves that render debit cards in local currency useless have all exacerbated the payment situation. In light of the lag in clearing checks, vendors who accept checks are likely to jack up their prices faster than ever. For their part, banks anticipate that their outdated check clearing systems will be unable to handle the expected volume of checks. See Harare 914.

19. Macroeconomic Instability Undermines Export Competitiveness... Our response to a USITC request details the deteriorating road, rail transport, electric power generation and distribution, and telecommunications networks in Zimbabwe. Despite these limitations,

firms regarded Zimbabwe's macroeconomic instability as the greatest constraint on their export competitiveness. See Harare 898.

¶10. ZSE Scaling New Heights... Activity on the Zimbabwe Stock Exchange continues to soar despite significant falls in most world markets due to the current credit crunch. Although there was a lull following the lopping off of 10 zeros on August 1, and the reduction in the payment period from 7 to 3 days, the market has rebounded since then. The recent suspension of bank transfers in preference for checks has driven up prices to reflect the time required for checks to clear. As a result, the benchmark industrial index rose by a whopping 5,127,920 percent between August 1 and October 9, while the mining index rose by 5,080,116 percent over the same period.

Quote of the Week

¶11. Zimbabwe Independent columnist Chido Makunike in an article published this week. "ZANU-PF is a revolutionary party. When it wants to eat its own children, it will just accuse them of smelling like goats."

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